

**CITY OF MILFORD**  
**INDEPENDENT AUDITORS' REPORTS**  
**PRIMARY GOVERNMENT**  
**BASIC FINANCIAL STATEMENTS AND**  
**SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FINDINGS**

**JUNE 30, 2007**

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CITY OF MILFORD  
OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
Virgil Wahlman	Mayor	January 1, 2008
Donald Lamb	Mayor Pro-Tem	January 1, 2010
Michael Anderson	Council Member	January 1, 2008
Keith Feller	Council Member	January 1, 2010
Don Gude	Council Member	January 1, 2008
Rick Kilts	Council Member	January 1, 2008
Bryan Read	City Administrator/Treasurer	Indefinite
David Stein, Sr.	Attorney	Indefinite

**WINTHER, STAVE & Co., LLP**  
*Certified Public Accountants*

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the primary government of the City of Milford, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents. These financial statements are the responsibility of City of Milford's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

The financial statements referred to above include only the primary government of the City of Milford, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component units, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the City's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the financial position - cash basis of the reporting entity of the City of Milford as of June 30, 2007, and the changes in its financial position - cash basis for the year then ended in conformity with the basis of accounting described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information for the primary government of the City of Milford at June 30, 2007, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2007 on our consideration of The City of Milford's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Budgetary comparison information on pages 17 through 19 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

The City has not presented management's discussion and analysis which introduces the basic financial statements by presenting certain financial information as well as management's analytical insight on that information that the Government Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the City's primary government. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements of the City's primary government for the three years ended June 30, 2006 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Winthru, Staw & Co., LLP*

October 31, 2007

## BASIC FINANCIAL STATEMENTS

CITY OF MILFORD  
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

		Program Receipts		
	<u>Disbursements</u>	<u>Charges for Service</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
FUNCTIONS/PROGRAMS:				
Governmental activities:				
Public safety .....	\$ 439,550	\$ 29,766	\$ 69,808	
Public works .....	405,658	4,970	206,195	
Health and social services .....	2,000			
Culture and recreation .....	315,669	2,303	30,670	
Community and economic development .....	38,422	31,265		
General government .....	296,173			
Debt service .....	134,562			
Capital projects .....	<u>730,810</u>			
Total governmental activities	<u>2,362,844</u>	<u>68,304</u>	<u>306,673</u>	
Business-type activities:				
Sewer .....	82,581	88,192		
Solid waste .....	<u>255,272</u>	<u>221,484</u>		
Total business-type activities	<u>337,853</u>	<u>309,676</u>		
TOTAL	<u>\$2,700,697</u>	<u>\$377,980</u>	<u>\$306,673</u>	

General Receipts:

Property and other city taxes levied for:

General purposes .....

Tax increment financing .....

Debt service .....

Local option sales tax .....

Unrestricted investment earnings .

Miscellaneous .....

Total general receipts

Change in cash basis net assets .....

Cash basis net assets - beginning of year

Cash basis net assets - end of year

Cash basis net assets

Restricted:

TIF supported projects .....

Debt service .....

Streets .....

Other purposes .....

Unrestricted .....

Total cash basis net assets

See Notes to Financial Statements

Exhibit A

Net (Disbursement) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business-Type Activities	Total
\$ (339,976)		\$ (339,976)
(194,493)		(194,493)
(2,000)		(2,000)
(282,696)		(282,696)
(7,157)		(7,157)
(296,173)		(296,173)
(134,562)		(134,562)
(730,810)		(730,810)
<u>(1,987,867)</u>		<u>(1,987,867)</u>
	\$ 5,611	5,611
	<u>(33,788)</u>	<u>(33,788)</u>
	<u>(28,177)</u>	<u>(28,177)</u>
<u>(1,987,867)</u>	<u>(28,177)</u>	<u>(2,016,044)</u>
801,133		801,133
439,576		439,576
53,215		53,215
452,801		452,801
107,165	4,073	111,238
72,376	43	72,419
<u>1,926,266</u>	<u>4,116</u>	<u>1,930,382</u>
(61,601)	(24,061)	(85,662)
<u>2,238,945</u>	<u>105,867</u>	<u>2,344,812</u>
<u>\$2,177,344</u>	<u>\$ 81,806</u>	<u>\$2,259,150</u>
\$1,102,438		\$1,102,438
(21,197)		(21,197)
27,257		27,257
4,823		4,823
<u>1,064,023</u>	<u>\$ 81,806</u>	<u>1,145,829</u>
<u>\$2,177,344</u>	<u>\$ 81,806</u>	<u>\$2,259,150</u>

See Notes to Financial Statements

CITY OF MILFORD  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND  
CHANGES IN CASH BALANCES  
GOVERNMENTAL FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

		Special Revenue	
	General	TIF Supported Projects	Debt Service
RECEIPTS:			
Property tax .....	\$ 659,986		\$ 53,215
Tax increment financing .....		\$ 439,576	
Other city tax .....	350,723		
Licenses and permits .....	35,620		
Use of money and property .....	61,286	54,133	3,424
Intergovernmental .....	91,030		
Charges for service .....	41,218		
Miscellaneous .....	55,056		
TOTAL RECEIPTS	<u>1,294,919</u>	<u>493,709</u>	<u>56,639</u>
DISBURSEMENTS:			
Operating:			
Public safety .....	437,646		
Public works .....	69,448		
Health and social services .....	2,000		
Culture and recreation .....	315,669		
Community and economic development .....	38,422		
General government .....	296,173		
Debt service .....			134,562
Capital projects .....	56,404	518,679	
TOTAL DISBURSEMENTS	<u>1,215,762</u>	<u>518,679</u>	<u>134,562</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>79,157</u>	<u>(24,970)</u>	<u>(77,923)</u>
OTHER FINANCING SOURCES (USES):			
Operating transfers in .....	141,147		
Operating transfers out .....	(11,797)		
TOTAL OTHER FINANCING SOURCES (USES)	<u>129,350</u>		
NET CHANGE IN CASH BALANCES	208,507	(24,970)	(77,923)
CASH BALANCES - BEGINNING OF YEAR .....	<u>855,516</u>	<u>1,127,408</u>	<u>56,726</u>
CASH BALANCES - END OF YEAR	<u>\$1,064,023</u>	<u>\$1,102,438</u>	<u>\$ (21,197)</u>
CASH BASIS FUND BALANCES:			
Reserved for debt service .....			\$ (21,197)
Unreserved:			
General fund .....	\$1,064,023		
Special revenue funds .....		\$1,102,438	
TOTAL CASH BASIS FUND BALANCES	<u>\$1,064,023</u>	<u>\$1,102,438</u>	<u>\$ (21,197)</u>

See Notes to Financial Statements

Exhibit B

<u>Special Revenue</u>		
<u>Road Use</u>	<u>Nonmajor</u>	<u>Total</u>
	\$ 141,147	\$ 854,348
		439,576
	102,078	452,801
		35,620
	3,623	122,466
\$ 206,195		297,225
		41,218
	2,933	57,989
<u>206,195</u>	<u>249,781</u>	<u>2,301,243</u>
	1,904	439,550
336,210		405,658
		2,000
		315,669
		38,422
		296,173
		134,562
	155,727	730,810
<u>336,210</u>	<u>157,631</u>	<u>2,362,844</u>
<u>(130,015)</u>	<u>92,150</u>	<u>(61,601)</u>
11,797		152,944
	(141,147)	(152,944)
<u>11,797</u>	<u>(141,147)</u>	<u></u>
(118,218)	(48,997)	(61,601)
<u>145,475</u>	<u>53,820</u>	<u>2,238,945</u>
<u>\$ 27,257</u>	<u>\$ 4,823</u>	<u>\$2,177,344</u>
		\$ (21,197)
\$ 27,257	\$ 4,823	1,064,023
<u>\$ 27,257</u>	<u>\$ 4,823</u>	<u>1,134,518</u>
<u>\$ 27,257</u>	<u>\$ 4,823</u>	<u>\$2,177,344</u>

See Notes to Financial Statements

CITY OF MILFORD  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND  
CHANGES IN CASH BALANCES  
PROPRIETARY FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

	Solid Waste	Nonmajor Proprietary Fund Sewer	Total
OPERATING RECEIPTS:			
Charges for service .....	\$221,484	\$88,192	\$309,676
Use of money and property .....	3,480	593	4,073
Miscellaneous .....	43		43
TOTAL RECEIPTS	<u>225,007</u>	<u>88,785</u>	<u>313,792</u>
OPERATING DISBURSEMENTS:			
Business type activities .....	<u>255,272</u>	<u>82,581</u>	<u>337,853</u>
TOTAL OPERATING DISBURSEMENTS	<u>255,272</u>	<u>82,581</u>	<u>337,853</u>
EXCESS (DEFICIENCY) OF OPERATING RECEIPTS OVER (UNDER) OPERATING DISBURSEMENTS	(30,265)	6,204	(24,061)
CASH BALANCES - BEGINNING OF YEAR .....	<u>94,393</u>	<u>11,474</u>	<u>105,867</u>
CASH BALANCES - END OF YEAR	<u>\$ 64,128</u>	<u>\$17,678</u>	<u>\$ 81,806</u>
CASH BASIS FUND BALANCES:			
Unreserved .....	<u>\$ 64,128</u>	<u>\$17,678</u>	<u>\$ 81,806</u>
TOTAL CASH BASIS FUND BALANCES	<u>\$ 64,128</u>	<u>\$17,678</u>	<u>\$ 81,806</u>

CITY OF MILFORD  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND  
CHANGES IN CASH BALANCE  
FIDUCIARY FUND  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

	Agency Fund
RECEIPTS:	
Additions .....	\$ 50
Interest .....	<u>10</u>
TOTAL RECEIPTS	<u>60</u>
DISBURSEMENTS:	
Deductions .....	<u>1,120</u>
DEFICIENCY OF RECEIPTS UNDER DISBURSEMENTS	(1,060)
CASH BALANCE - BEGINNING OF YEAR	<u>2,647</u>
CASH BALANCE - END OF YEAR	<u>\$1,587</u>

## NOTES TO FINANCIAL STATEMENTS

CITY OF MILFORD  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2007

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Milford, Iowa is a political subdivision of the State of Iowa located in Dickinson County. The City operates under the Mayor-Council form of government with the Mayor and City Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides solid waste and sewer utilities for its citizens.

**A. Reporting Entity**

For financial reporting purposes, the City has included all funds, organizations, agencies, boards, commissions, and authorities. These financial statements present the primary government of the City of Milford but do not include any component units for which it is financially accountable.

The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

Milford Municipal Utilities is considered a component unit of the City of Milford. The financial statements of this component unit are audited by other auditors and are presented on the accrual basis of accounting. Complete financial statements of Milford Municipal Utilities can be obtained from their administrative offices. Therefore, the City has elected not to include Milford Municipal Utilities or any other potential component units in these financial statements.

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards: Dickinson County Assessor's Conference Board, Upper Des Moines Opportunity Board, Dickinson County Emergency Management Commission, Dickinson County Water Quality Commission, and Dickinson County Joint E911 Service Board.

**B. Basis of Presentation**

Government-Wide Financial Statement - The statement of activities and net assets reports information on all of the nonfiduciary activities of the primary government of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services.

The statement of activities and net assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

*Restricted net assets* results when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The statement of activities and net assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants, contributions, and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds, proprietary funds and a fiduciary fund. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds. The only nonmajor proprietary fund is included in a separate column in the fund financial statements.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The TIF Supported Projects Fund is used to account for projects financed by tax increment financing.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general obligation debt.

The Road Use Fund is used to account for road construction and maintenance.

Additionally, the City reports the following major proprietary fund:

The Solid Waste Fund accounts for the operation and maintenance of the City's solid waste utility.

### **C. Measurement Focus and Basis of Accounting**

The City of Milford maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable or accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from nonoperating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as nonoperating receipts and disbursements.

## 2. CASH AND POOLED INVESTMENTS

The City's deposits in banks at June 30, 2007 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; and perfected repurchase agreements.

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 month of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

## 3. BOND PAYABLE

Annual debt service requirements to maturity for the urban renewal tax increment financial revenue bond are as follows:

Year Ending June 30,	Urban Renewal Tax Increment Financing Revenue Bond	
	<u>Principal</u>	<u>Interest</u>
2008	\$ 90,000	\$ 8,787
2009	<u>95,000</u>	<u>4,512</u>
Total	<u>\$185,000</u>	<u>\$13,299</u>

The urban renewal tax increment financing revenue bond was issued for the purpose of defraying a portion of the costs of carrying out urban renewal projects of the City. The bond is payable solely from tax increment financing collections in accordance with Chapter 403.19 of the Code of Iowa. The proceeds of the urban renewal tax increment financing

revenue bond shall be expended only for purposes which are consistent with the plans of the City's urban renewal area. The bond is not a general obligation of the City, however the debt is subject to the constitutional debt limitation of the City.

The City reserves the right to call and prepay any principal amount of the Urban Renewal Tax Increment Financing Revenue Bond issued January 8, 1999 at any time. In the event of prepayment on a date other than an interest payment date, interest shall be paid to the date of prepayment only.

#### **4. PENSION AND RETIREMENT BENEFITS**

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, IA 50306-9117.

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2007, 2006, and 2005 were \$42,245, \$39,381, and \$37,662, respectively, equal to the required contributions for each year.

#### **5. COMPENSATED ABSENCES**

City employees accumulate a limited amount of earned but unused vacation, sick leave, and compensatory time for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation, sick leave, and compensatory time payments payable to employees at June 30, 2007, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation .....	\$21,300
Sick leave .....	32,800
Compensatory time .....	<u>7,200</u>
Total	<u>\$61,300</u>

The liability for compensated absences has been computed based on rates of pay as of June 30, 2007.

## 6. INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2007 is as follows:

<u>Transfer to</u>		<u>Transfer from</u>	<u>Amount</u>
General	\$141,147	Special Revenue: Employee Benefits	\$141,147
Special Revenue: Road Use	<u>11,797</u>	General	<u>11,797</u>
Total	<u>\$152,944</u>		<u>\$152,944</u>

## 7. DEFICIT BALANCE

At June 30, 2007 the Debt Service Fund had a deficit balance of \$21,197. This deficit will be eliminated upon collection of tax increment financing revenues and the subsequent transfer of these revenues into the Debt Service Fund.

## 8. RELATED PARTY TRANSACTIONS

The City had business transactions between the City and City officials and employees, totaling \$11,094 during the year ended June 30, 2007.

## 9. LOCAL GOVERNMENT RISK POOL

The City of Milford is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 556 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses, and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City of Milford's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City of Milford's annual contributions to the Pool for the year ended June 30, 2007 were \$52,673.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$3,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2007, settled claims have not exceeded the risk pool or reinsurance company coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of the membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100% of its capital contributions; however, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City of Milford also carries commercial insurance purchased from other insurers for coverage associated with workers' compensation. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

## **10. LITIGATION**

The City is party to routine legal proceedings and litigation arising in the normal course of governmental operations. These legal proceedings are not expected to have a material adverse impact on the City's financial condition.

## **11. CONSTRUCTION CONTRACT**

The City has entered into a construction contract totaling \$284,449 for storm sewer improvements. No costs have been incurred on the project as of June 30, 2007. The \$284,449 balance will be paid as work on the project progresses.

## REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MILFORD  
BUDGETARY COMPARISON SCHEDULE OF  
RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES -  
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS  
AND PROPRIETARY FUNDS  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2007

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>	<u>Total</u>
RECEIPTS:			
Property tax .....	\$ 854,348		\$ 854,348
Tax increment financing .....	439,576		439,576
Other city tax .....	452,801		452,801
Licenses and permits .....	35,620		35,620
Use of money and property .....	122,466	\$ 4,073	126,539
Intergovernmental .....	297,225		297,225
Charges for service .....	41,218	309,676	350,894
Miscellaneous .....	<u>57,989</u>	<u>43</u>	<u>58,032</u>
TOTAL RECEIPTS	<u>2,301,243</u>	<u>313,792</u>	<u>2,615,035</u>
DISBURSEMENTS:			
Public safety .....	439,550		439,550
Public works .....	405,658		405,658
Health and social services .....	2,000		2,000
Culture and recreation .....	315,669		315,669
Community and economic development .....	38,422		38,422
General government .....	296,173		296,173
Debt service .....	134,562		134,562
Capital projects .....	730,810		730,810
Business-type activities .....		<u>337,853</u>	<u>337,853</u>
TOTAL DISBURSEMENTS	<u>2,362,844</u>	<u>337,853</u>	<u>2,700,697</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	(61,601)	(24,061)	(85,662)
BALANCES - BEGINNING OF YEAR .....	<u>2,238,945</u>	<u>105,867</u>	<u>2,344,812</u>
BALANCES - END OF YEAR	<u>\$2,177,344</u>	<u>\$ 81,806</u>	<u>\$2,259,150</u>

<u>Budgeted Amounts</u>		Final to Actual
<u>Original</u>	<u>Final</u>	Variance Positive (Negative)
\$ 819,390	\$ 819,390	\$ 34,958
450,000	450,000	(10,424)
342,334	342,334	110,467
22,450	22,450	13,170
16,000	16,000	110,539
313,710	313,710	(16,485)
303,600	303,600	47,294
44,200	44,200	13,832
<u>2,311,684</u>	<u>2,311,684</u>	<u>303,351</u>
511,650	511,650	72,100
386,310	418,498	12,840
5,100	5,100	3,100
399,009	399,009	83,340
47,350	47,350	8,928
299,660	299,660	3,487
183,771	183,771	49,209
885,000	885,000	154,190
358,220	358,220	20,367
<u>3,076,070</u>	<u>3,108,258</u>	<u>407,561</u>
(764,386)	(796,574)	<u>\$710,912</u>
<u>1,893,408</u>	<u>1,893,408</u>	
<u>\$1,129,022</u>	<u>\$1,096,834</u>	

See Accompanying Independent Auditors' Report

CITY OF MILFORD  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
JUNE 30, 2007

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds, except fiduciary funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business-type activities and non-program. Function disbursements required to be budgeted include disbursements for the general fund, special revenue funds, debt service fund, capital projects funds and proprietary funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$32,188. The budget amendment is reflected in the final budgeted amounts.

## OTHER SUPPLEMENTARY INFORMATION

CITY OF MILFORD  
 STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN  
 CASH BALANCES - NONMAJOR GOVERNMENTAL FUNDS  
 AS OF AND FOR YEAR ENDED JUNE 30, 2007

	Special Revenue			
	Local Option Sales Tax	Employee Benefits	Property Forfeiture	Total
RECEIPTS:				
Property tax .....		\$ 141,147		\$ 141,147
Other city tax .....	\$102,078			102,078
Use of money and property .....	3,623			3,623
Miscellaneous .....			\$2,933	2,933
TOTAL RECEIPTS	<u>105,701</u>	<u>141,147</u>	<u>2,933</u>	<u>249,781</u>
DISBURSEMENTS:				
Operating:				
Public safety .....			1,904	1,904
Capital Projects .....	<u>155,727</u>			<u>155,727</u>
TOTAL DISBURSEMENTS	<u>155,727</u>		<u>1,904</u>	<u>157,631</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS .....	<u>(50,026)</u>	<u>141,147</u>	<u>1,029</u>	<u>92,150</u>
OTHER FINANCING USES:				
Operating transfers out .....		<u>(141,147)</u>		<u>(141,147)</u>
TOTAL OTHER FINANCING USES		<u>(141,147)</u>		<u>(141,147)</u>
NET CHANGE IN CASH BALANCES	(50,026)		1,029	(48,997)
CASH BALANCES - BEGINNING OF YEAR	<u>53,023</u>	<u>797</u>		<u>53,820</u>
CASH BALANCES - END OF YEAR	<u>\$ 2,997</u>	<u>\$ 797</u>	<u>\$1,029</u>	<u>\$ 4,823</u>
CASH BASIS FUND BALANCES:				
Unreserved:				
Special revenue funds .....	<u>\$ 2,997</u>	<u>\$ 797</u>	<u>\$1,029</u>	<u>\$ 4,823</u>
TOTAL CASH BASIS FUND BALANCES	<u>\$ 2,997</u>	<u>\$ 797</u>	<u>\$1,029</u>	<u>\$ 4,823</u>

CITY OF MILFORD  
SCHEDULE OF INDEBTEDNESS  
YEAR ENDED JUNE 30, 2007

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General Obligation Note: Street improvement	March 12, 1997	5.00%	\$230,000
Urban Renewal Tax Increment Financing (TIF) Revenue Bond: 1999 Issue	January 8, 1999	4.75%	\$775,000

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
<u>\$ 30,000</u>	<u>          </u>	<u>\$30,000</u>	<u>\$      0</u>	<u>\$ 1,500</u>	<u>          </u>
<u>\$275,000</u>	<u>          </u>	<u>\$90,000</u>	<u>\$185,000</u>	<u>\$13,062</u>	<u>          </u>

CITY OF MILFORD  
BOND MATURITIES  
JUNE 30, 2007

Urban Renewal Tax  
Increment Financing (TIF)  
Revenue Bond

<u>Issued January 8, 1999</u>		
<u>Year Ending</u> <u>June 30,</u>	<u>Interest</u> <u>Rates</u>	<u>Amount</u>
2008	4.75	\$ 90,000
2009	4.75	<u>95,000</u>
Total		<u>\$185,000</u>

CITY OF MILFORD  
 SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION  
 ALL GOVERNMENTAL FUNDS  
 FOR THE LAST FOUR YEARS

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
RECEIPTS:				
Property and other city tax .....	\$1,307,149	\$1,117,958	\$1,060,377	\$1,025,048
Tax increment financing .....	439,576	587,556	513,594	467,036
Licenses and permits .....	35,620	54,283	23,379	40,417
Use of money and property .....	122,466	79,898	34,081	20,278
Intergovernmental .....	297,225	290,803	308,921	309,545
Charges for service .....	41,218	75,373	16,355	74,897
Miscellaneous .....	<u>57,989</u>	<u>80,549</u>	<u>191,023</u>	<u>36,479</u>
 TOTAL REVENUES	 <u>\$2,301,243</u>	 <u>\$2,286,420</u>	 <u>\$2,147,730</u>	 <u>\$1,973,700</u>
 DISBURSEMENTS:				
Public safety .....	\$ 439,550	\$ 354,577	\$ 439,934	\$ 570,181
Public works .....	405,658	407,159	327,265	373,108
Health and social services .....	2,000	2,100	3,511	1,000
Culture and recreation .....	315,669	286,487	233,151	247,327
Community and economic development ..	38,422	71,418	62,476	75,296
General government .....	296,173	317,285	271,992	289,622
Debt service .....	134,562	159,643	271,401	217,665
Capital projects .....	<u>730,810</u>	<u>45,126</u>	<u>122,584</u>	<u>117,238</u>
 TOTAL EXPENDITURES	 <u>\$2,362,844</u>	 <u>\$1,643,795</u>	 <u>\$1,732,314</u>	 <u>\$1,891,437</u>

**WINTHER, STAVE & Co., LLP**  
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INDEPENDENT AUDITORS' REPORT  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the primary government of the City of Milford, Iowa as of and for the year ended June 30, 2007, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents, and have issued our report thereon dated October 31, 2007. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Milford's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of City of Milford's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City of Milford's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and one deficiency we consider to be a material weakness.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency or combination of control deficiencies, that adversely affects City of Milford's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City of Milford's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies in

internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item I-A-07 is a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the primary government of the City of Milford are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the primary government of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Milford's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit City of Milford's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Milford and other parties to whom the City of Milford may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Milford during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Wintner, Stave & Co., LLP*

October 31, 2007

CITY OF MILFORD  
SCHEDULE OF FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2007

**Part I: Findings Related to the Financial Statements**

**SIGNIFICANT DEFICIENCIES:**

- I-A-07    Segregation of Duties - One important aspect of internal control over financial reporting is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted employees were performing incompatible functions.

Recommendation - We realize that it is difficult to appropriately segregate duties when the number of employees is limited. Therefore, we recommend the Council maintain its diligence in the review of the financial records.

Response - We will continue our review.

Conclusion - Response accepted.

- I-B-07    Financial Institution Accounts Not Reflected in City Financial Records - During our audit, we noted one financial institution account from which expenditures are made without approval by the City Council. Also the City did not receive the bank statements or any other type of financial reporting for this account and did not include the activity or balances of the account in its monthly financial reports. The balance and activity in the account are reflected as an agency fund on page 9.

Recommendation - We recommend the City Council approve all expenditures from this account. Statements for the account should be delivered to City offices and activity and balances in the account should be reflected in City financial records.

Response - The balance in the account is expected to be used during fiscal 2008 or transferred to other City accounts.

Conclusion - Response acknowledged.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

CITY OF MILFORD  
SCHEDULE OF FINDINGS - Continued  
YEAR ENDED JUNE 30, 2007

**Part II: Other Findings Related to Required Statutory Reporting**

II-A-07 Certified Budget - Disbursements during the year ended June 30, 2007 did not exceed the amounts budgeted.

II-B-07 Questionable Disbursements - We noted no expenditures for parties, banquets, or other entertainment for employees that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-C-07 Travel Expense - No expenditures of City money for travel expenses of spouses of City officials or employees were noted.

II-D-07 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Virgil Wahlman, Mayor, Owner of Marvil, Inc.	Developer agreement payment	\$11,094

This transaction does not appear to represent a conflict of interest as defined by Chapter 362.5 of the Code of Iowa as there was a signed developer rebate agreement related to this expenditure.

II-E-07 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

II-F-07 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

II-G-07 Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

CITY OF MILFORD  
SCHEDULE OF FINDINGS - Continued  
FOR THE YEAR ENDED JUNE 30, 2007

**Part II: Other Findings Related to Required Statutory Reporting** - Continued

II-H-07 Tax Increment Debt Certificate - Pursuant to the requirements of Section 403.19 of the Code of Iowa, the City annually submits a Tax Increment Debt Certificate to the County Auditor which lists the Tax Increment Financing (TIF) debt of the City. We noted the annual certification did not reduce the TIF debt payable by the amount of TIF fund balances maintained by the City.

Recommendation - We recommend the City contact the County Auditor to determine the required procedures to correct the annual certification.

Response - We will contact the County Auditor to determine the method for correcting the certification.

Conclusion - Response accepted.